HOUSE BUDGET COMMITTEE

Democratic Caucus

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July 22, 2002

Dynamic Scoring: The Old Supply-Side Alchemy

Dear Democratic Colleague,

House Republicans have mounted a full-court press to revive "dynamic scoring," the discredited supply-side notion that tax cuts pay for themselves. They have been pressuring the Joint Tax Committee to proceed with dynamic scoring of tax cuts even though the Congressional Budget Office (CBO) believes it "would pose intractable problems," and no professional consensus exists about how to implement it. Even the Bush Administration, which embraces tax cuts as the solution to most problems, does not use dynamic estimates of tax cuts' budgetary effects.

Dynamic Scoring Requires Scorekeepers to Make Guesses at the Expense of Hard Data

- ***There is little consensus among economists about the magnitude or even the direction of many dynamic effects*** — To perform dynamic scoring, scorekeepers would have to make guesses, assigning exact values to subtle economic factors, even though experts have long disputed the magnitudes of such factors. For instance, dynamic scoring requires asserting precise values for the responsiveness of savings to taxes or the degree of foresight in financial markets. These issues have long been debated among economists without resolution, and obliging scorekeepers to make specific guesses would invite political pressure to choose one value over another.

- ***Dynamic scoring requires scorekeepers to predict future actions of the Congress —*** One dynamic effect about which economists agree is that persistent budget deficits are unsustainable. They undermine the economy, which in turn feeds back to create even worse deficits in a vicious circle. Thus, proper dynamic scoring of a tax bill that is not offset elsewhere in the budget should show it eventually driving the economy ever lower and the public debt ever higher. To avoid this, scorekeepers would have to make a judgement about how a deficit opened up by a tax cut ultimately would be closed. Whatever judgement they made — whether tax increases or spending cuts, whether now or later — would have profound effects on the dynamic scoring calculation.

- ***Dynamic scoring requires guessing the expectations of taxpayers, financial markets, and the Federal Reserve, which are fundamentally unknowable* —** In order to estimate the feedback of a tax cut on the economy and the budget, scorekeepers would need to know whether people believed it to be temporary or permanent. They would also need to pre-judge the Federal Reserve's reaction to the tax cut, as well as financial markets' anticipations of both the tax cut's long-run budget effect and the Federal Reserve's reactions. Imagine trying to answer such questions with respect to last year's tax cut, which included a host of complex phase-ins and sunsets with varying degrees of plausibility.

- ***Dynamic scoring requires guesses in areas where data are incomplete* —** Chronic under-funding of government statistical agencies has meant that many types of data that one might want simply do not exist. This means that dynamic scorekeepers would have to hazard guesses about what the unknown data might say. Alternatively, they might make dynamic estimates only for proposals where needed data are available but not for others, introducing unknown biases.

Dynamic Scoring Is Impractical and Would Serve the Congress Poorly

- ***Specific legislative proposals cannot be dynamically scored in the time frame Congress needs* —** When legislation is pending before Congress, estimates of the proposal typically are needed in a matter of hours or days. In order to be done carefully, dynamic scoring could require weeks or months, making it impractical as a guide to legislation.

- ***Unlike dynamic scoring, current procedures help scorekeepers to stay non-political* —** Official scorekeepers have a responsibility to be cautious and avoid intellectual fads. Otherwise, they run the risk of improperly influencing Congress by picking and choosing among analyses that achieve particular results. In a political environment, dynamic scoring creates considerable danger for abuse of budget estimates because supporters of virtually every legislative proposal could claim that it would boost the economy.

Republicans want dynamic scoring for tax cuts but not for public investment — an obvious clue to the ideological motivation behind the push for dynamic scoring. Republicans, of course, try to equate tax cuts with economic growth, even though proposals like eliminating the estate tax have no effect on growth. At the same time, Republicans resist dynamic scoring for spending initiatives and ignore the fact that some types of public investment (like education, scientific research, and infrastructure) foster a healthier economy.

Some supporters of dynamic scoring are promoting it now to diminish the credibility of CBO, which will soon report more severe and more persistent deficits based on traditional scoring. CBO has a long record of providing Congress with reliable, credible, and unbiased scoring. Let's not revisit the mistakes of the early 1980s, when the Laffer Curve and economic alchemy were used to justify budget policies that quadrupled the public debt.

The recent collapse of revenues is prompting analysts both in government and the private-sector to revise down their budget projections. Republicans may argue that the deterioration of the budget outlook is overstated because standard scoring does not account for tax cuts' positive effect on economic growth. But one might just as easily argue that financial markets have concluded that the budget will remain broken for years to come, and this will hurt future economic growth. Ultimately, it will be financial markets, not critics in Washington, who are more important judges of budget projections' credibility.

Sincerely,

John M. Spratt, Jr.
Ranking Member